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MARKETING UPS AND DOWNS:

DEERE SAILS; HARVESTER AILS

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How to keep hold of company secrets

On with the sell!: Special Section on trade shows

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S&MM's cover by Robert Altemus

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Setting industrial ad budgets

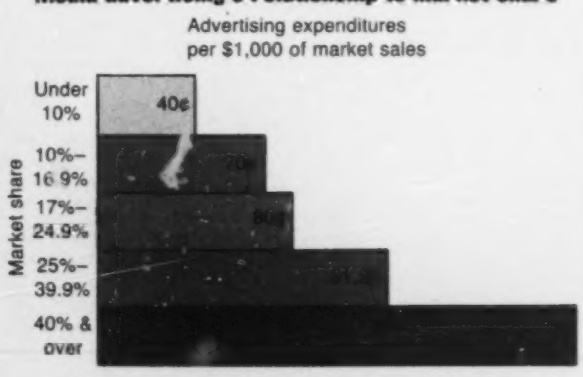
Industrial marketers should look beyond their own sales when setting media advertising budgets, according to a recent study by Cahners Publishing, Boston. Upshot of the study: Targeted share-of-market may be a more reliable yardstick for advertising spending than the conventional share-of-sales rule of thumb.

The publisher commissioned Strategic Planning Institute (SPI), Cambridge, MA, to analyze its PIMS (Profit Impact of Marketing Strategy) data base that contains the operating experiences of more than 1,000 individual businesses with histories that range from 4 to 10 years. Focussing on 600 industrial-type businesses, SPI found a positive correlation between market share and advertising spending. That is, the fatter the market share, the greater the amount of spending on advertising. Businesses with less than a 10% market share spent 40¢ per $1,000 of market sales on advertising compared to $2.00 by those businesses with 40% or more market share.

Consumer goods marketers have long appreciated the relationship between market share and ad spending. However, according to Jerry Neth, vice president of planning in Cahners' magazine division, the SPI analysis provides the "first quantifiable proof" that the rule is equally valid for industrial marketers.

"Industrial marketers should be governed by the rules of the marketplace," he says. "If a company has a 10% market share, they are looking at a market with 10 times their own sales, hence it should set its budget based on the total marketplace. If that company wants to increase its market share to 20%, rather than just spend money in proportion to its own sales, it should look at what companies with a 20% share are spending and match their levels."

Media advertising's relationship to market share



Source: Cahners Publishing Co., *How Much Do Companies Spend on Media Advertising?*, Report No. 2100.01.
*Sales & Marketing Management.

SPI also examined other influences on industrial ad budgets. Companies with broader product lines spent $1.30 per $1,000 of market sales vs. 90¢ by those with narrower offerings. And businesses spent $1.10 per $1,000 of market sales advertising standard products compared to 80¢ for made-to-order products, the reason being that the latter are less threatened by available substitutes.

JD defines vertical restraints

There are lots of ways for manufacturers to restrain the trade of their products—some legal and some illegal, reminds the Justice Dept. (JD). Trouble is, deciding how to tell has been an onerous chore for marketers who have followed often conflicting advice from their attorneys. The JD says it wants to set the record straight.

Slated to be unveiled by the JD at presstime was its first *Vertical Restraints Guide*, aimed at informing both business and the courts just how it views such practices as exclusive dealer contracts, territorial and customer restrictions, and tying arrangements. It hopes judges will refer to the teachings when deciding whether specific nonprice restraints pose a threat to competition.

The guidelines offer a two-stage process to weigh questionable practices. The first would measure a company's market power against an index to evaluate the impact of its restraints. If it's decided the company has a small enough share of an unconcentrated market, no further examination is needed. If it doesn't pass muster, the JD would take a closer look at other areas, such as concentration levels and ease of entry in both supplier and dealer markets.

When analyzing tying arrangements, for example, the department would consider whether the party imposing the tie has a market share of 30% or less in the market for the tying product. If so, it's legal unless the agreement clearly restrains competition. If it's more than 30%, a closer look is taken. The final test, of course, is whether the practices hurt consumers.

Paul McGrath, who heads the Antitrust Div., said he intended to release the guidelines before returning to the private sector this month. He said the department would promote their use in screening out "nuisance" cases against vertical restraint practices.